



**HAVELLS**

**Havells India Limited**

**Standard Operating Procedure**

**Treasury Operations**

Version 1.1

## Overview

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## 1.1 Introduction to Standard Operating Procedures (SOP)

### 1.1.1 Objective of the SOP

- ▶ The SOP has been designed to achieve the following objectives:
  - Establish standard operating procedures for capturing, originating, recording and processing of all transactions related to the Treasury process;
  - Develop a common understanding of the roles, responsibilities and performance measures across functions for establishing accountability;
  - Establish key controls, thus assisting in overall risk management;
  - Ensure accuracy of the data;
  - Facilitate monitoring of process efficiency by standard Management Information System ('MIS').

### 1.1.2 Scope of the SOP

- ▶ The SOP has been developed to document the standard operating procedures pertaining to Treasury. The SOP has been developed for the Treasury process.
- ▶ The SOP aims at strengthening the internal controls for Treasury processes in accordance with company's policies. This SOP would, among other things:
  - Standardize systems and procedures
  - Facilitate coordination and control
  - Facilitate delegation of authority and responsibility
- ▶ For sake of convenience of the user, SOP provides relevant information on major processes and process flow charts and description.

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## 1.2 Structure of the SOP

### 1.2.1 Objective

- ▶ Each mega process in the organization is guided and governed by a clear set of objectives which define the direction for the process. These objectives are aligned with the fulfillment of the organization's objectives.

### 1.2.2 Major processes

- ▶ Each mega process is divided into component major processes. Major Processes are organized sequentially to structure out the flow of the mega process.

### 1.2.3 Process flow chart

- ▶ Process flow chart summarizes the key activities pertaining to the major process.

### 1.2.4 Activity description

- ▶ Activity description consists of a detailed narration of activities in the process elaborating on the activity flow.

### Note

Wherever feasible the best business practices has also been incorporated in each of the SOP's which is recommendatory in nature. After reaching at the maturity level of the process the same will get implemented in due course of business.

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## 1.3 Amendment of SOP

### 1.3.1 Objective

- ▶ The objective of the amendment procedure is to ensure that all the amendments relating to the SOP are properly documented and authorized prior to implementation.

### 1.3.2 Sources of amendments

- ▶ The need for amendments can arise for various reasons, some of which are mentioned below:
  - Changes in management policies
  - Change in organization structure or interfacing functions that may involve changes in systems and procedures to ensure control
  - Changes in business environment
  - Ambiguity and error in existing procedures
- ▶ The changes can be either small or large and involve part or all the functions.

### 1.3.3 Responsibility for amendments

- ▶ Treasury Head will decide on specific amendments in the SOP and communicate to all concerned employees. Treasury Head will be responsible for approving amendments to the SOP, including the following:
  - Safe custody of the SOP
  - Authorization of changes
  - Incorporation of changes in the SOP and their subsequent implementation
- ▶ In order to ensure that the SOP is used and updated regularly, Treasury Head will obtain regular feedback from the process owners on matters like the level of implementing the procedures, operational feasibility, leakages/shortcomings noticed and possible improvisation in existing procedures.



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## 1.3 Amendment of SOP

### 1.3.4 Procedure for amendment

- ▶ Amendment to the SOP can be proposed by any personnel within the department through a SOP Amendment Form (SAF) (Refer SOP Amendment Form) stating the section/clause/sub-clause to be amended, the reason for amendment and the proposed amendment.
- ▶ Treasury Head will consult the support team for IT related services, wherever required, for exploring the possibility for making the amendment in the system.
- ▶ Treasury Head will consult Director Finance for any critical business related issues arising out of the amendment, prior to his final approval. The relevant section/clause/sub-clause of the SOP will be replaced with the approved amendment, which will supersede all the earlier documentation on the matter.
- ▶ Treasury Head will communicate the revised SOP to all concerned process owners.
- ▶ Treasury Head will maintain the log of all revisions/amendments carried out in the SOP. (Refer SOP Amendment Log)

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**SOP amendment form (SAF)**

Request number:			
I. Nature of amendment		: Addition / modification / deletion	
Process			
Sub Process			
Clause No. to be amended			
Proposed amendment			
Reason for amendment			
Date		Proposed By:	
II. Approved / rejected			
Remarks / Reasons			
Date:			
III. Effective date:			
Date:		Process Owner	
IV Circular no.			
Date:		Apex Committee Members	

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**SOP Amendment Log**

S. No.	Date	Version	Change Proposed by	Change Approved by	SAF Ref. no.

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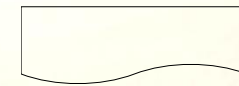
**Symbols used**



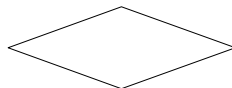
Process step



Start/end of process



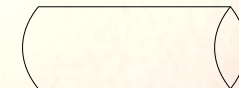
Document



Decision box



Manual input



Entry into system



On / Off page  
reference



Direct Data

SOP	Standard Operating Procedure
SAF	Standard Operating Procedure Amendment Form



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People involved (with defined roles and responsibilities) in the Treasury process are depicted in the chart below



***Key roles and responsibilities have been captured along with the 'activity description' in flow charts of each major process.***

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## 2. Overview of Treasury process

### 2.1 Key objectives

- ▶ Mitigating exchange rate risks
- ▶ Use of appropriate hedging instruments
- ▶ Minimize cost of hedge and financing
- ▶ Meet credit obligations
- ▶ To ensure accurate and effective means of forecasting cash outflows and inflows
- ▶ Provide adequate control over financial resource
- ▶ To ensure that adequate credit limits exist with the banks

### 2.2 Process overview

- ▶ The Treasury Function at Havells is headed by Directory Finance who is supported by Treasury Head and two other Executives. The Standard Operating Procedure encompasses activities i.e. managing long term and short term finance, foreign exchange transaction management through hedging, securing / executing bank guarantee and letter of credit for Company's operations and operating / managing bank accounts..

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## 2.3 List of major processes

The major processes in the Treasury department are shown as below:

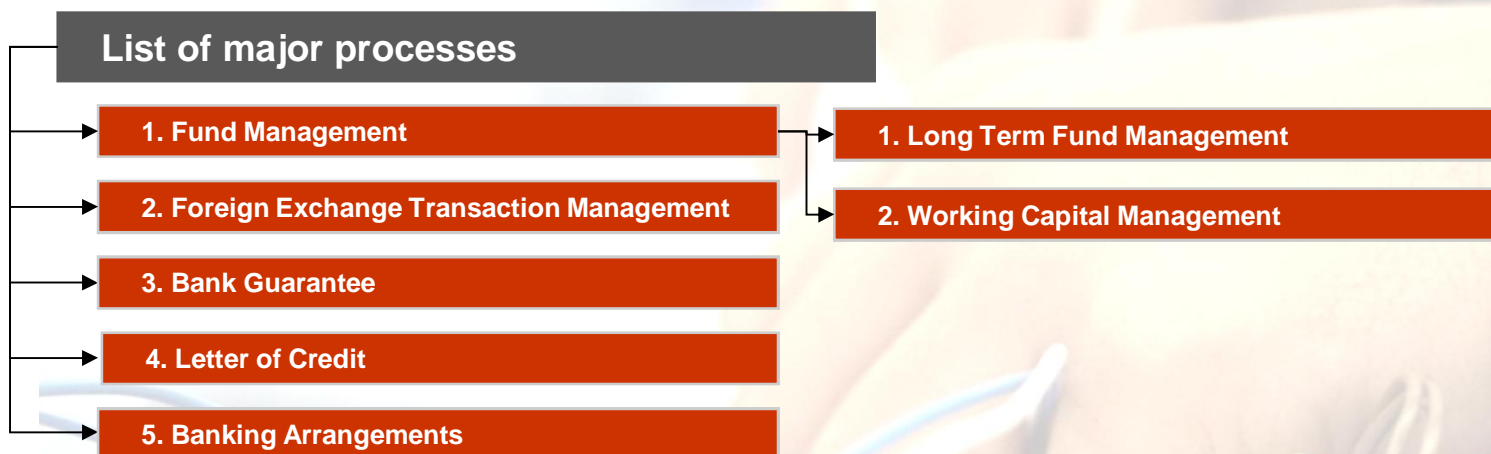


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## 2.3 List of major processes

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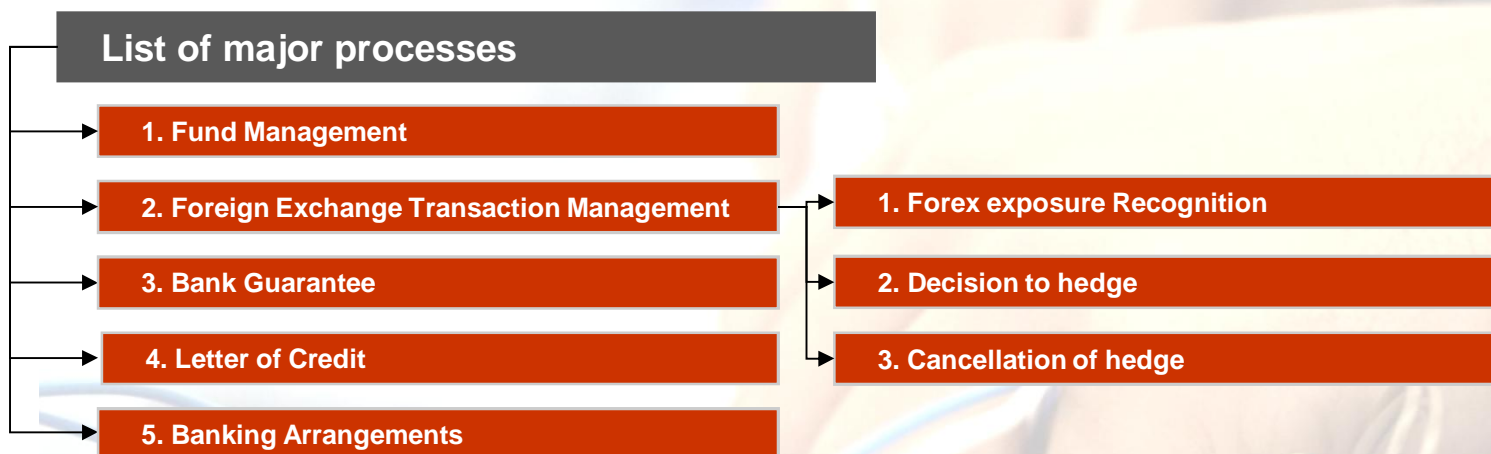
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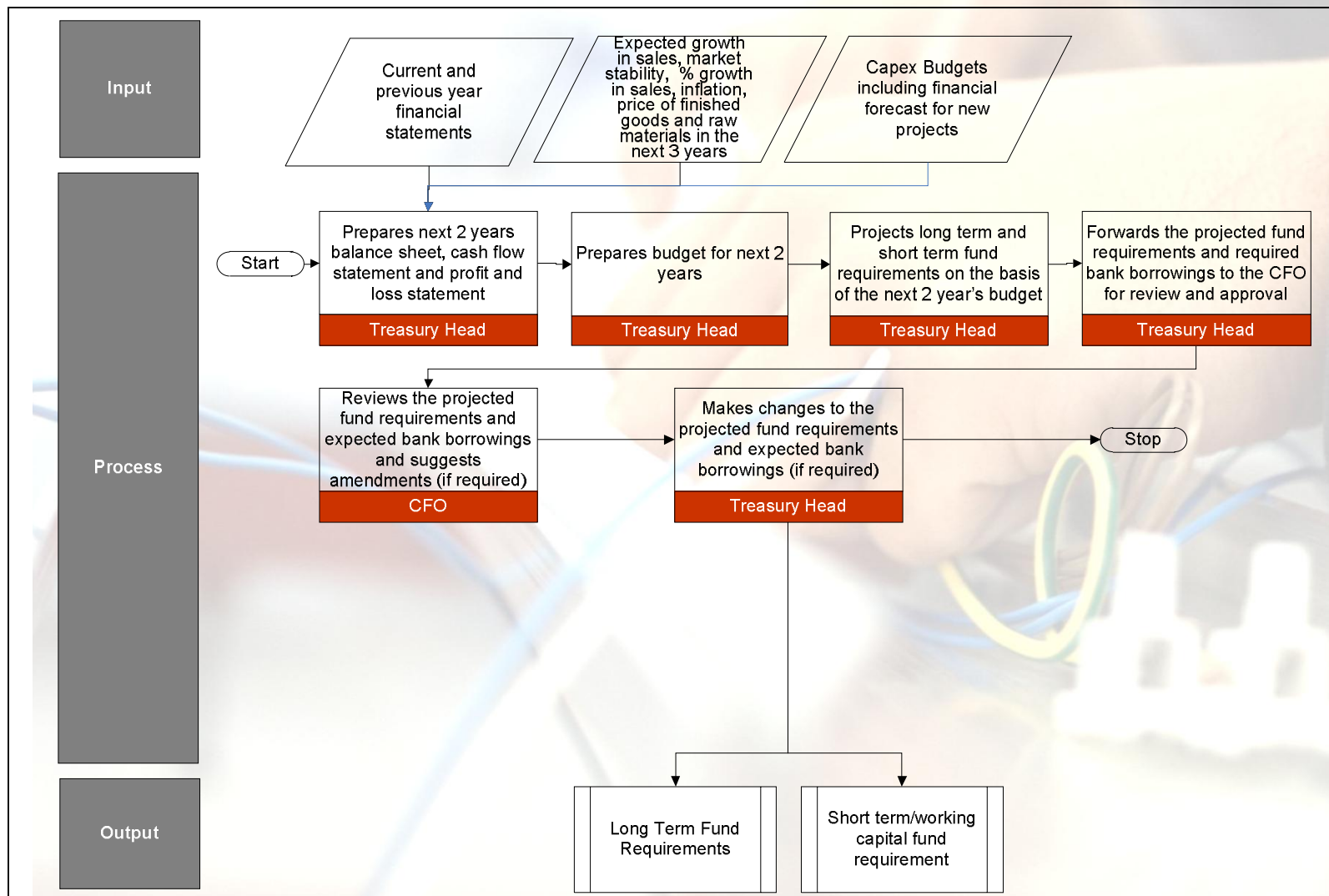
## 2.3 List of major processes

The major processes in the Treasury department are shown as below:



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## Sub process: Sourcing of funds



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## A. Funds Management

### A1. Key Process description – Sourcing of funds

- ▶ The Treasury Head will prepare the next two years' balance sheet, capex projections, cash flow statement and profit and loss statement using the current and previous year's financial statements, expected growth in sales, expected market stability, expected percentage growth in sales, expected inflation, expected price of finished goods and expected price of raw materials in the next three years.
- ▶ The Treasury Head will prepare the budget for the next two years using the forecasted balance sheet, cash flow statement and profit and loss statement of the next two years.
- ▶ Using the next two year's budget, the Treasury Head will project the next two years long term and short term fund requirements.
- ▶ The Treasury Head will forward the projected fund requirements and required bank borrowings to the CFO for review and approval.
- ▶ The CFO will review the projected fund requirements and expected bank borrowings and, if required, will suggest amendments to the same.
- ▶ The Treasury Head will make the suggested changes to the projected fund requirements and expected bank borrowings.
- ▶ This will be followed by the process of long term and short term/working capital fund requirements.



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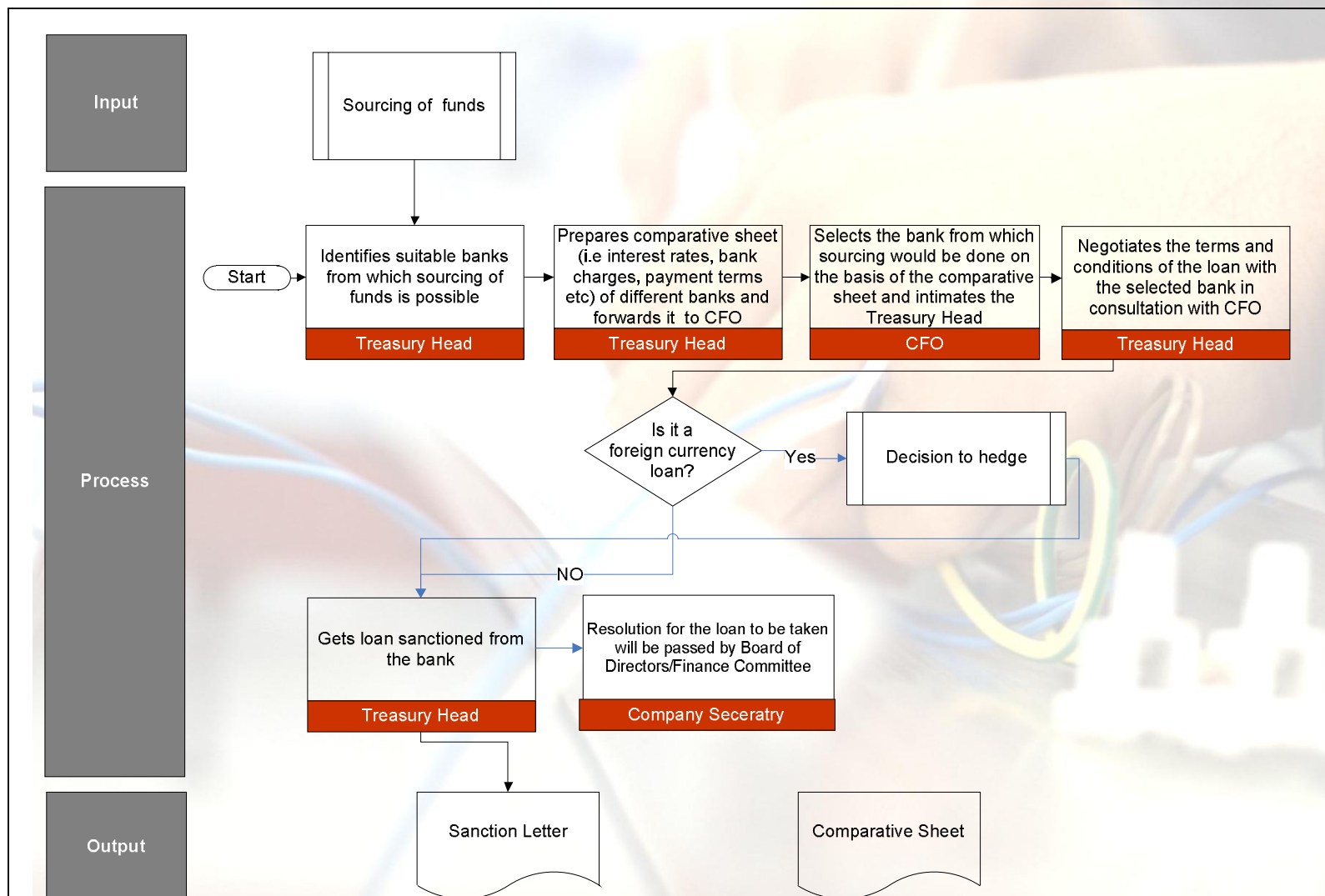
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## Sub process: Long term fund requirement



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## A2. Key Process description – Long Term Fund Requirement

- ▶ The process of long term fund requirements will be preceded by the process of sourcing of funds.
- ▶ The Treasury Head will identify suitable banks (around 7-8 banks) from which the sourcing of funds is possible.
- ▶ The Treasury Head will prepare a comparative sheet encapsulating bank interest rates, bank charges and payment terms etc. of various banks.
- ▶ The Treasury Head will forward the comparative sheet to the CFO.
- ▶ The CFO will select the bank from which sourcing will be done on the basis of the comparative sheet and will intimate the Treasury Head about the same.
- ▶ The Treasury Head will negotiate the terms and conditions of the loan with the selected bank in consultation with the CFO.
- ▶ The Treasury Head will get the loan sanctioned from the bank according to the agreed terms and conditions and a sanction letter will be obtained.
- ▶ After this, a resolution for the loan to be taken will be passed by the board of directors / finance committee.

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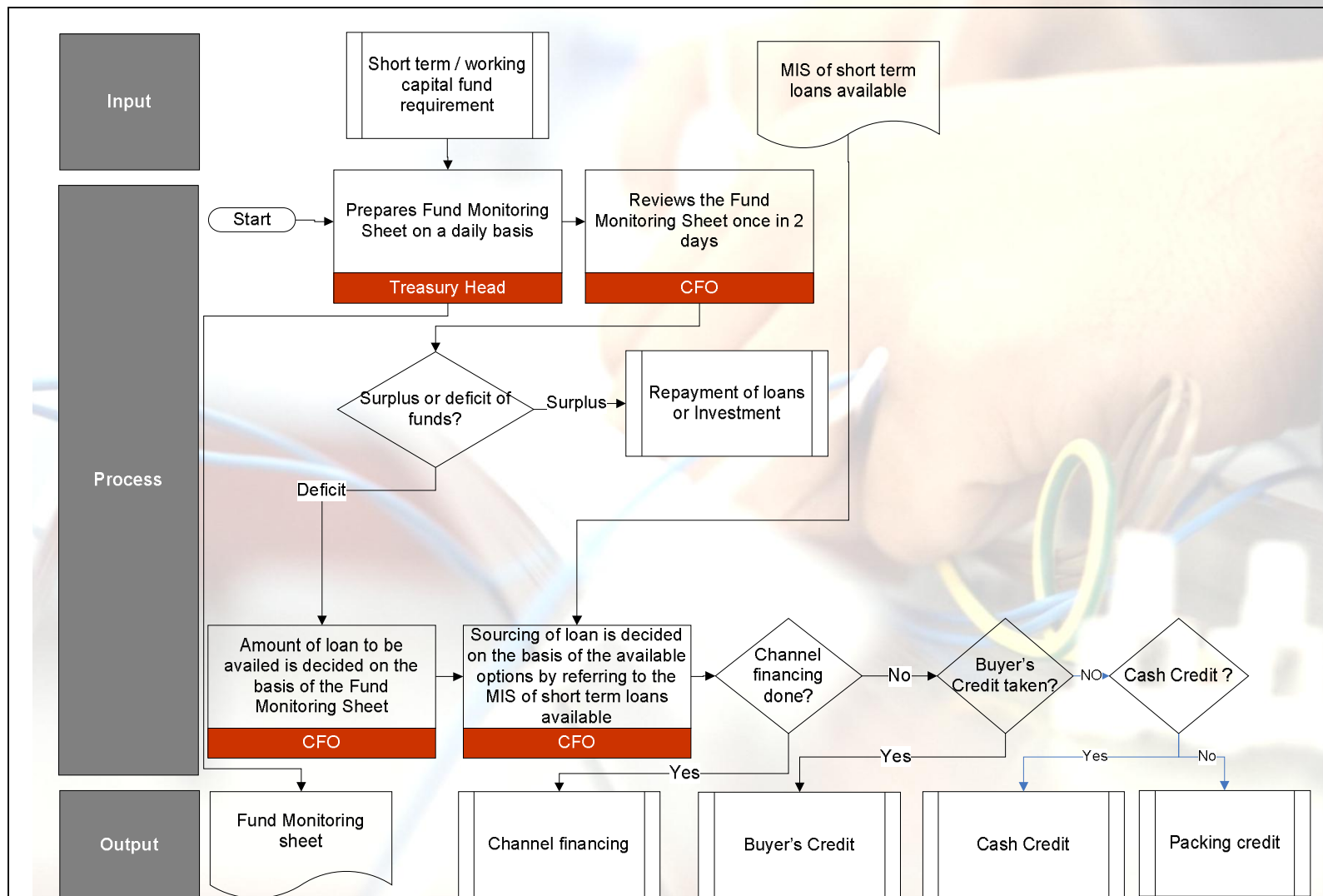
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## Sub process: Working capital fund requirement



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### A3. Key Process description – Working capital fund requirement

- ▶ This will follow the process of Setting the cash credit limit.
- ▶ The Treasury Head will prepare a fund monitoring sheet daily.
- ▶ The fund monitoring sheet will be reviewed by the CFO once in 2 days.
- ▶ In case there is a surplus of funds, the amount will be used for repayment of loans.
- ▶ In case there is a deficit of funds, the CFO will decide the amount for the loan to be availed on the basis of the fund monitoring sheet.
- ▶ The CFO will decide the sourcing of the loan on the basis off the available options by referring to the MIS of the short term loans available.
- ▶ There are mainly four sources available for funding working capital requirements (a) Channel financing (b) Buyer's credit (c) Cash credit (d) Packing credit



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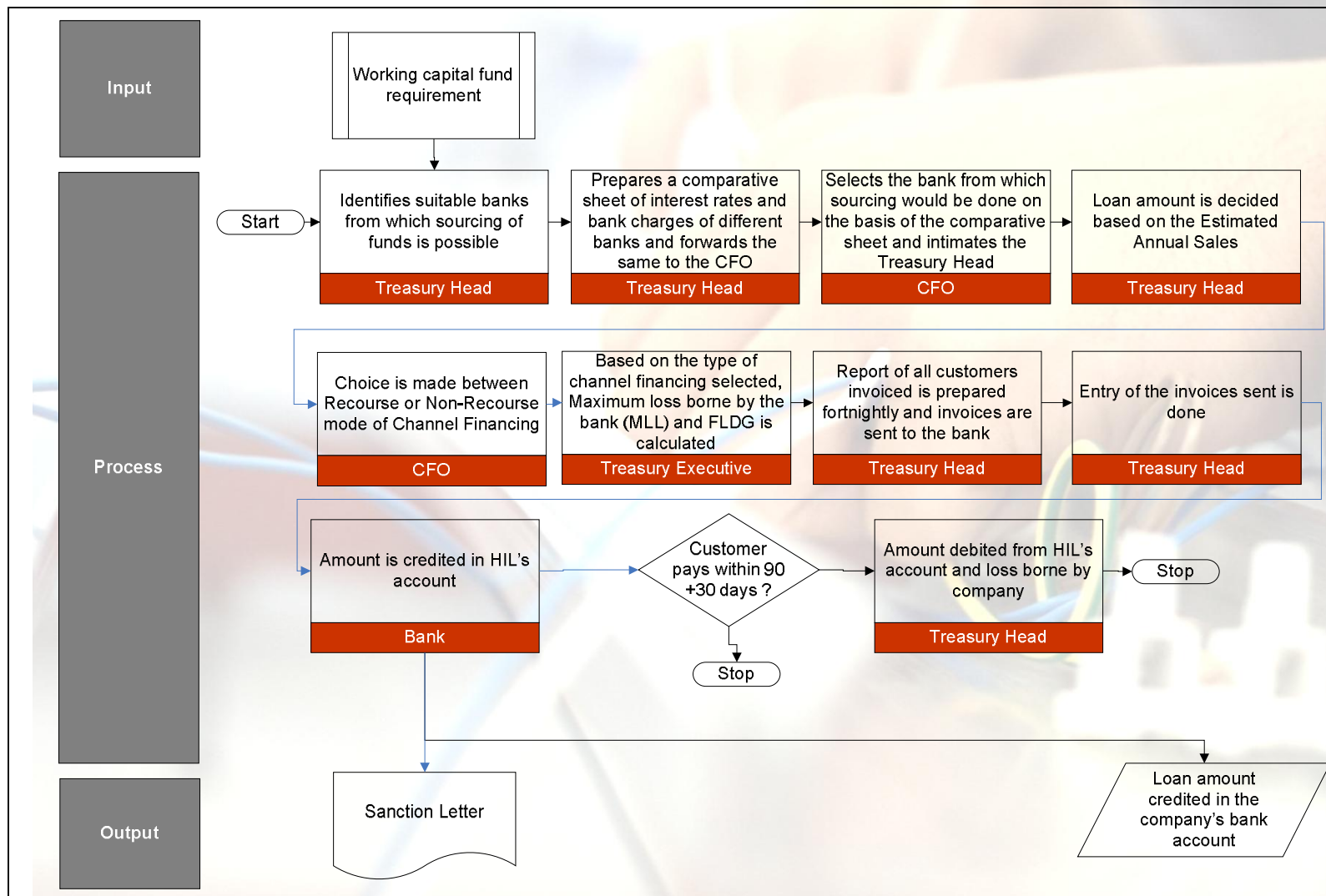
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## Sub process: Channel Financing



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#### A4. Key Process description – Channel financing

- ▶ The Treasury Head will identify suitable banks from which sourcing of funds is possible
- ▶ The Treasury Head will prepare a comparative sheet of the interest rate and bank charges of different banks and will forward the same to the CFO
- ▶ The CFO will then select the bank from which sourcing will be done on the basis of the comparative sheet and will intimate the Treasury Head about the same
- ▶ The Treasury Head will decide the loan amount on the basis of the estimated annual sales
- ▶ CFO will decide the mode of Channel Financing (Recourse or Non Recourse) basis which MLL and FLDG will be calculated
- ▶ The Treasury Head will prepare a report of all the customers invoiced on a fortnightly basis and will send the invoices to the bank
- ▶ The Treasury Head will then make an entry in the SAP of all the invoices sent
- ▶ The bank will then credit the amount in HIL's account
- ▶ In case the customer does not pay within 90 days (with 30 days grace period), the amount will be debited from HIL's account and the loss will be borne by HIL

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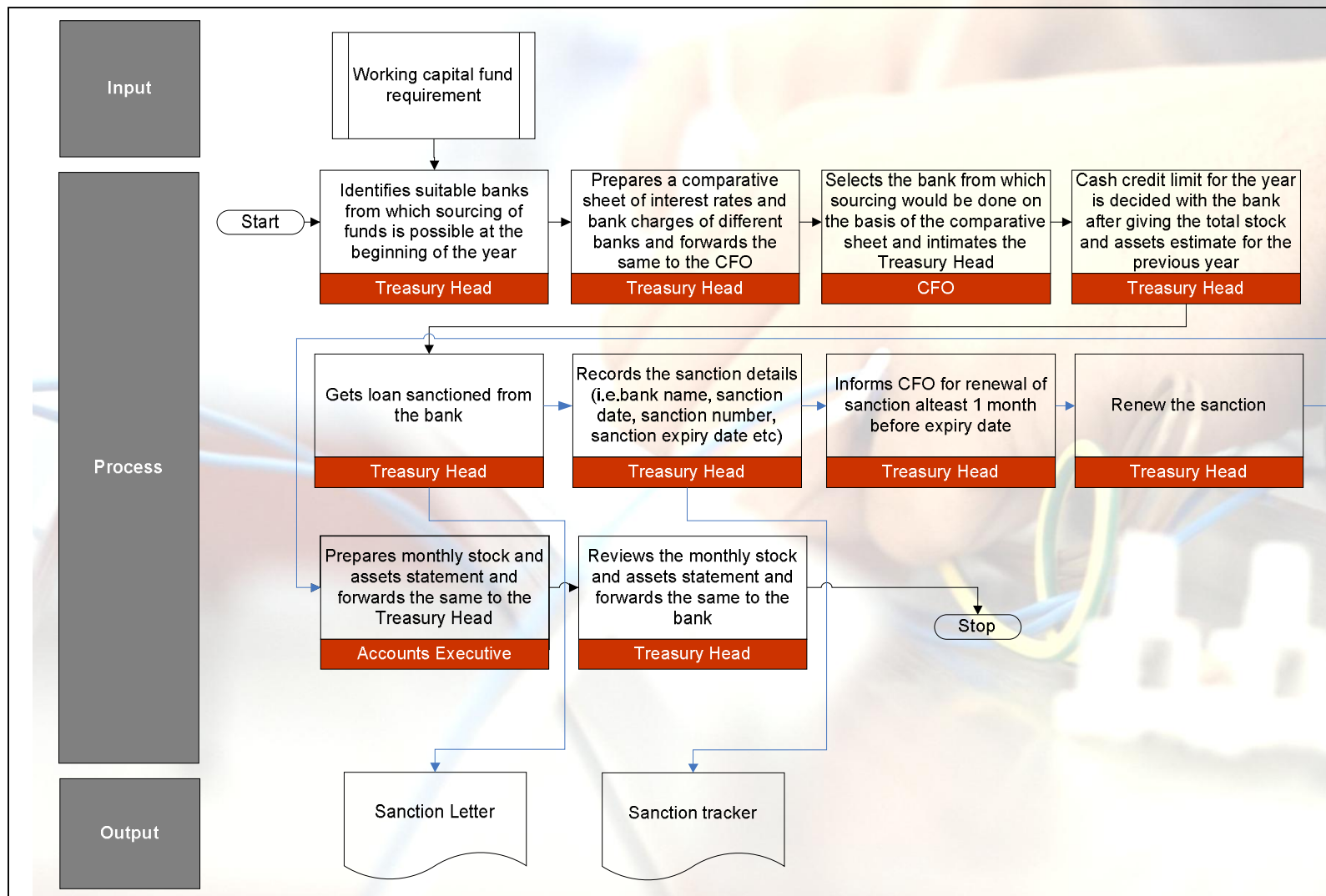
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## Sub process: Cash credit



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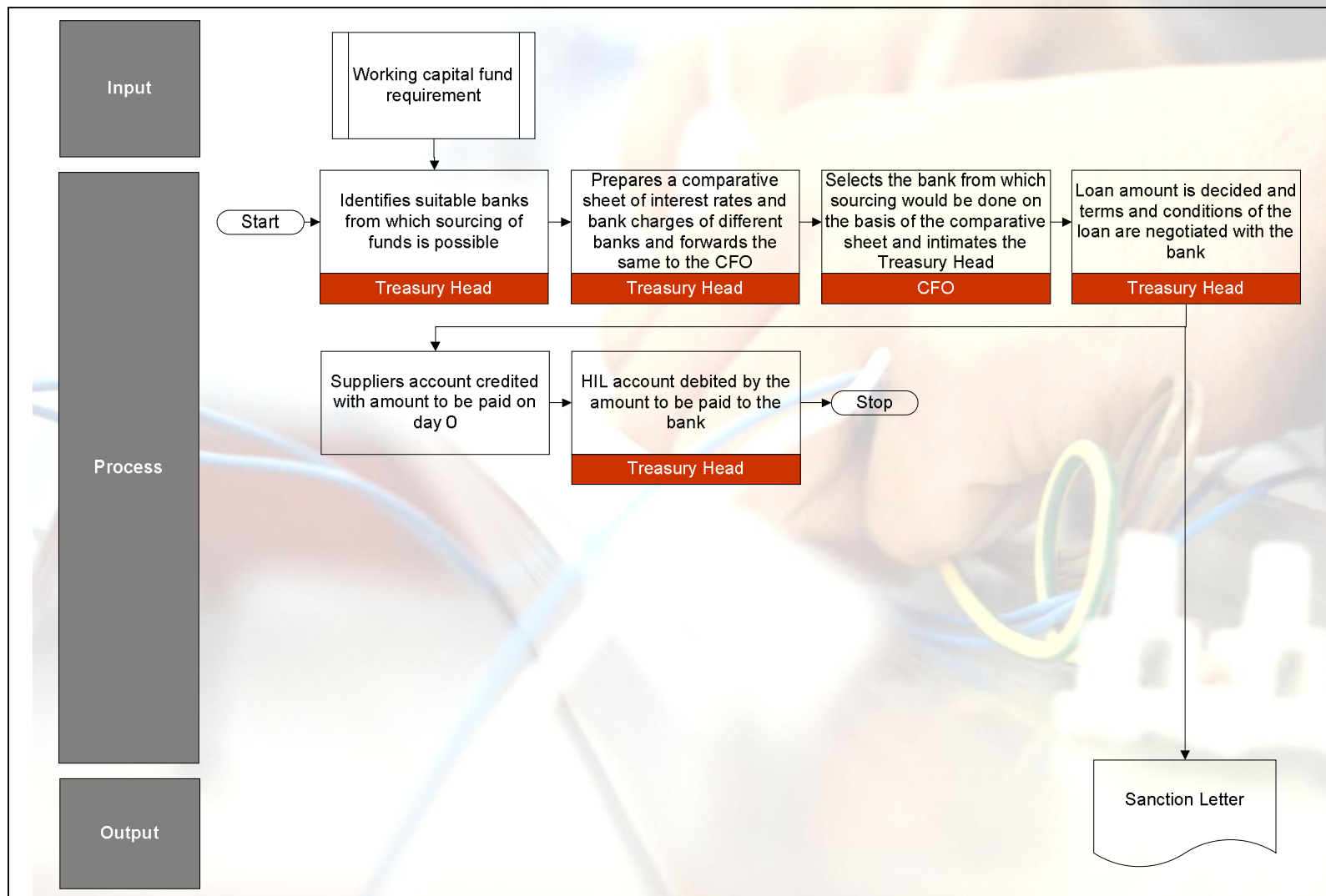
## A5. Key Process description – Cash credit

- ▶ The Treasury Head will identify suitable banks from which sourcing of funds is possible at the beginning of the year.
- ▶ The Treasury Head will then prepare a comparative sheet of the interest rate and bank charges of different banks and will forward the same to the CFO.
- ▶ The CFO will then select the bank from which sourcing will be done on the basis of the comparative sheet and will intimate the Treasury Head about the same.
- ▶ The cash credit limit for the year will then be decided with the bank after giving the total stock and assets estimate for the previous year.
- ▶ The Treasury Head will get the loan sanctioned from the bank and will obtain the sanction letter.
- ▶ Treasury Head records the sanction letter details into Sanction Tracker and performs review of the tracker on Quarterly basis.
- ▶ Treasury Head will inform the CFO for renewal of Sanction atleast one month prior to the expiry date post approval of which sanctions for the loan will be renewed..
- ▶ The Accounts Executive will prepare a monthly stock and assets statement and will forward it to the Treasury Head.
- ▶ The Treasury Head will review the monthly stock and assets statement and will forward the same to the bank.
- ▶ The bank will revise the drawing power for the month on the basis of the monthly stock and assets estimate.



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## Sub process: Buyer's Credit



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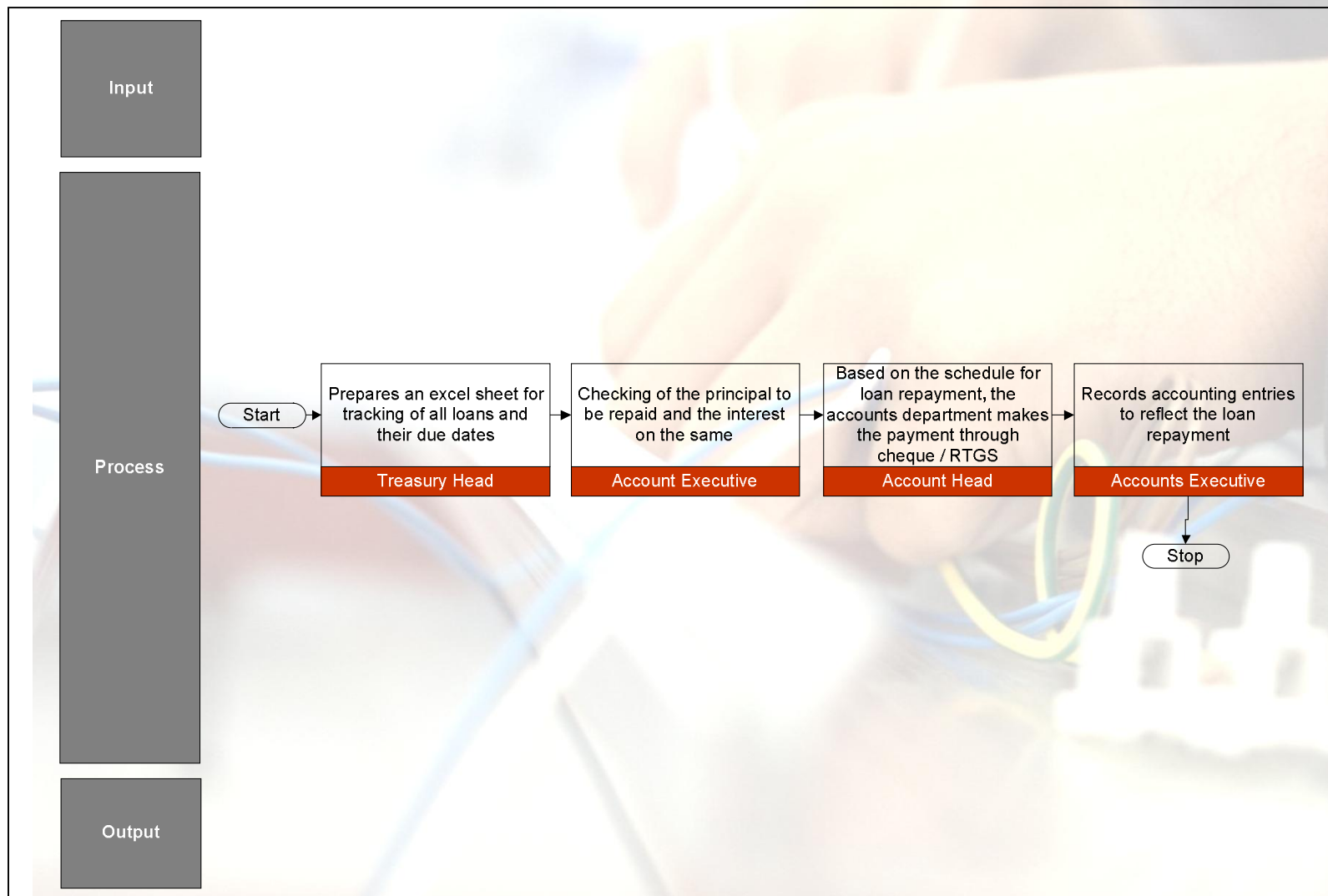
## A6. Key Process description – Buyer's credit

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- ▶ The Treasury Head will identify suitable banks from which sourcing of funds is possible.
- ▶ The Treasury Head will prepare a comparative sheet of the interest rate and bank charges of different banks and will forward the same to the CFO.
- ▶ The CFO will then select the bank from which sourcing will be done on the basis of the comparative sheet and will intimate the Treasury Head about the same.
- ▶ The Treasury Head will decide the loan amount and terms and conditions of the loan will be negotiated with the bank.
- ▶ The supplier's account will be credited with the amount to be paid on day zero.
- ▶ The HIL amount will be debited by the amount to be paid to bank.

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## Sub process: Loan Repayment



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## A7. Key Process description – Loan Repayment

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- ▶ Treasury Head will prepare an excel sheet for tracking of all loans and their due dates.
- ▶ Account Executive will check the principal to be repaid and the interest on the same.
- ▶ Based upon the schedule for loan repayment, the Account Executive will prepare the cheque and hands it over to the bank.
- ▶ The Accounts Executive will update the accounts reflect the repayment.

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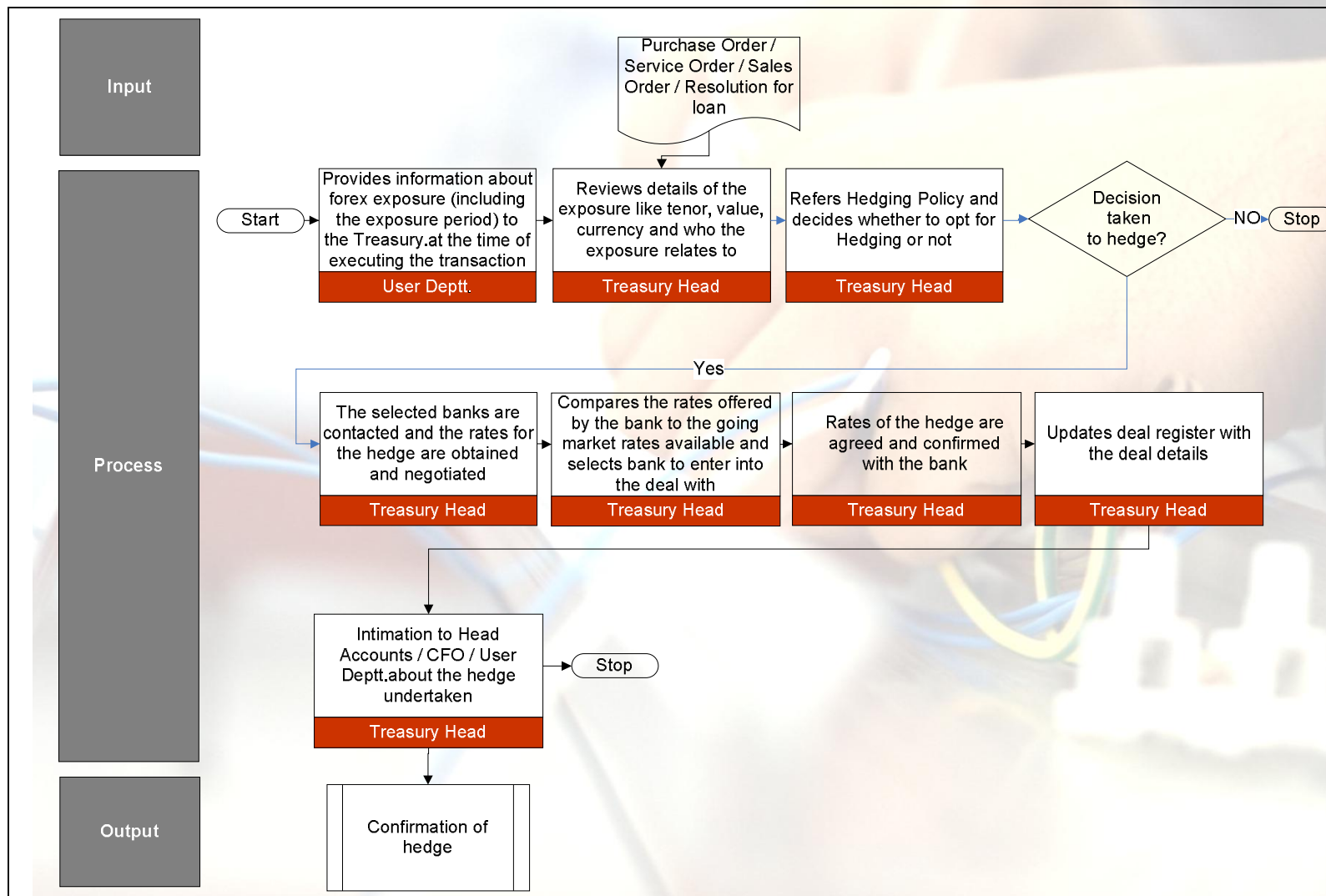
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## Sub process: Decision to hedge





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## B1. Key Process description – Decision to hedge

- ▶ The user departments will provide information about the foreign exchange exposures (including the exposure period) to the Treasury Department before executing the transaction (Purchase / Sale / Loan).
- ▶ The Treasury Head will refer the Hedging Policy (approved by Board) and will then take the decision whether to hedge or not.
- ▶ In case the decision is taken to hedge, the Treasury Head will decide the type of hedging instrument to be used.
- ▶ The Treasury Head will contact the selected banks and obtain and negotiate the rates for the hedge.
- ▶ The Treasury Head will then compare the rates offered by the banks to the going market rates available and will select the bank to enter into the deal with.
- ▶ The Treasury Head will confirm the rates of the hedge with the selected bank.
- ▶ After confirmation of the deal with the selected bank, the Treasury Head will update the deal register
- ▶ The Treasury Head will intimate the Head Finance about the hedge undertaken.
- ▶ This will be followed by the process of confirmation of the hedging deal.

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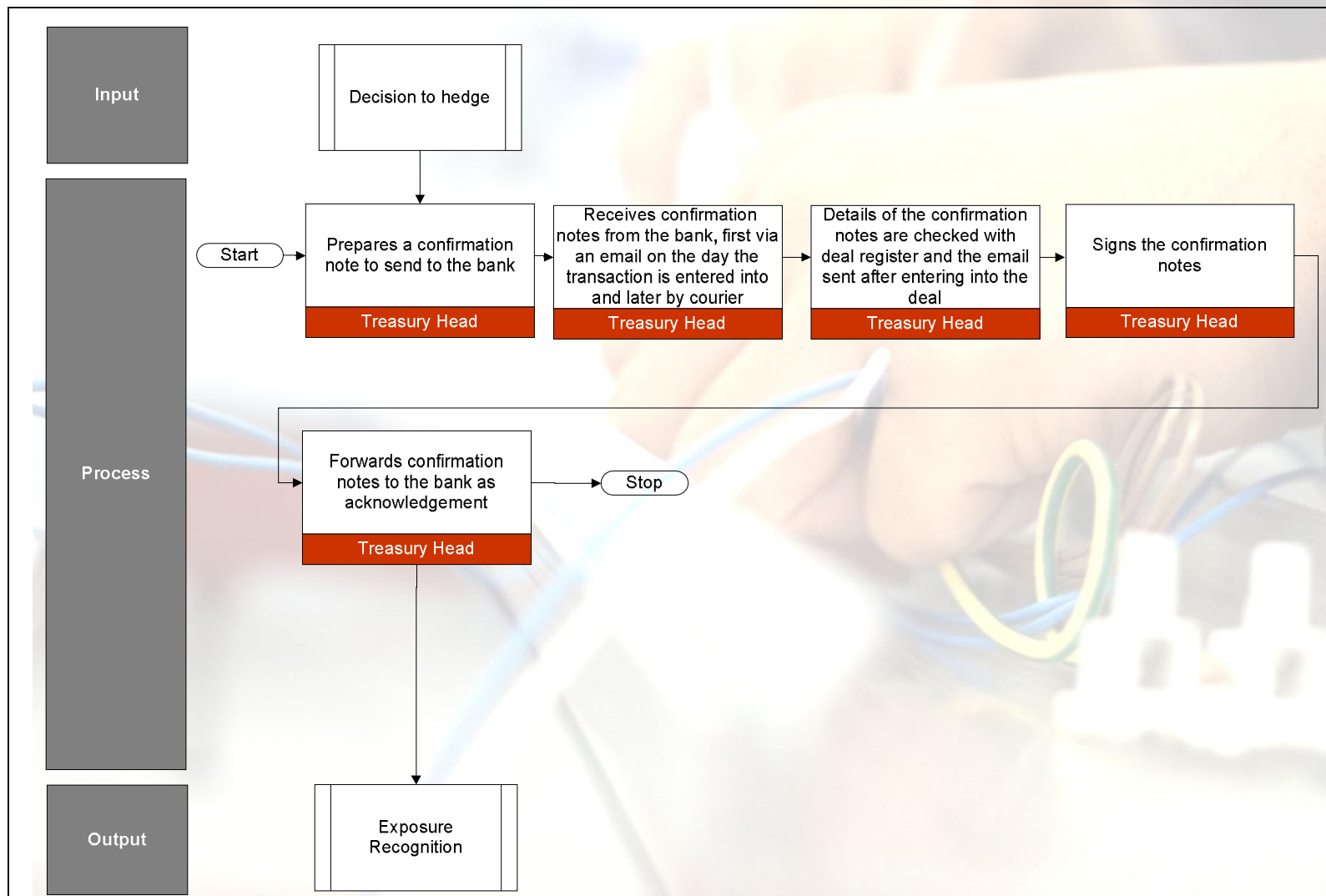
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## Sub process: Confirmation of hedging deal



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## B2. Key Process description – Confirmation of the hedge

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- ▶ The Treasury Head will prepare a confirmation note to send to the bank.
- ▶ The Treasury Head will receive confirmation notes from the bank, first via an email on the day the transaction is entered into and later by courier.
- ▶ The Treasury Head will check the details on the confirmation notes with the deal register and the email sent after entering into the deal.
- ▶ In case no discrepancy is found, the Treasury Head will sign the confirmation notes and forward the confirmation notes to the bank as acknowledgement.
- ▶ In case a discrepancy is found, the Treasury Head will contact the bank and inform the bank him about the discrepancy.
- ▶ If the bank accepts the error, the bank will send the revised confirmation note to the Treasury Department.
- ▶ The revised confirmation note will be acknowledged by the authorized signatories and sent back to the bank.
- ▶ The Treasury Head will retain a copy of the confirmation note and update the SAP with the revised confirmation note.
- ▶ In case the bank does not accept the error, the bank will be asked to go over the deal and send a revised confirmation note.

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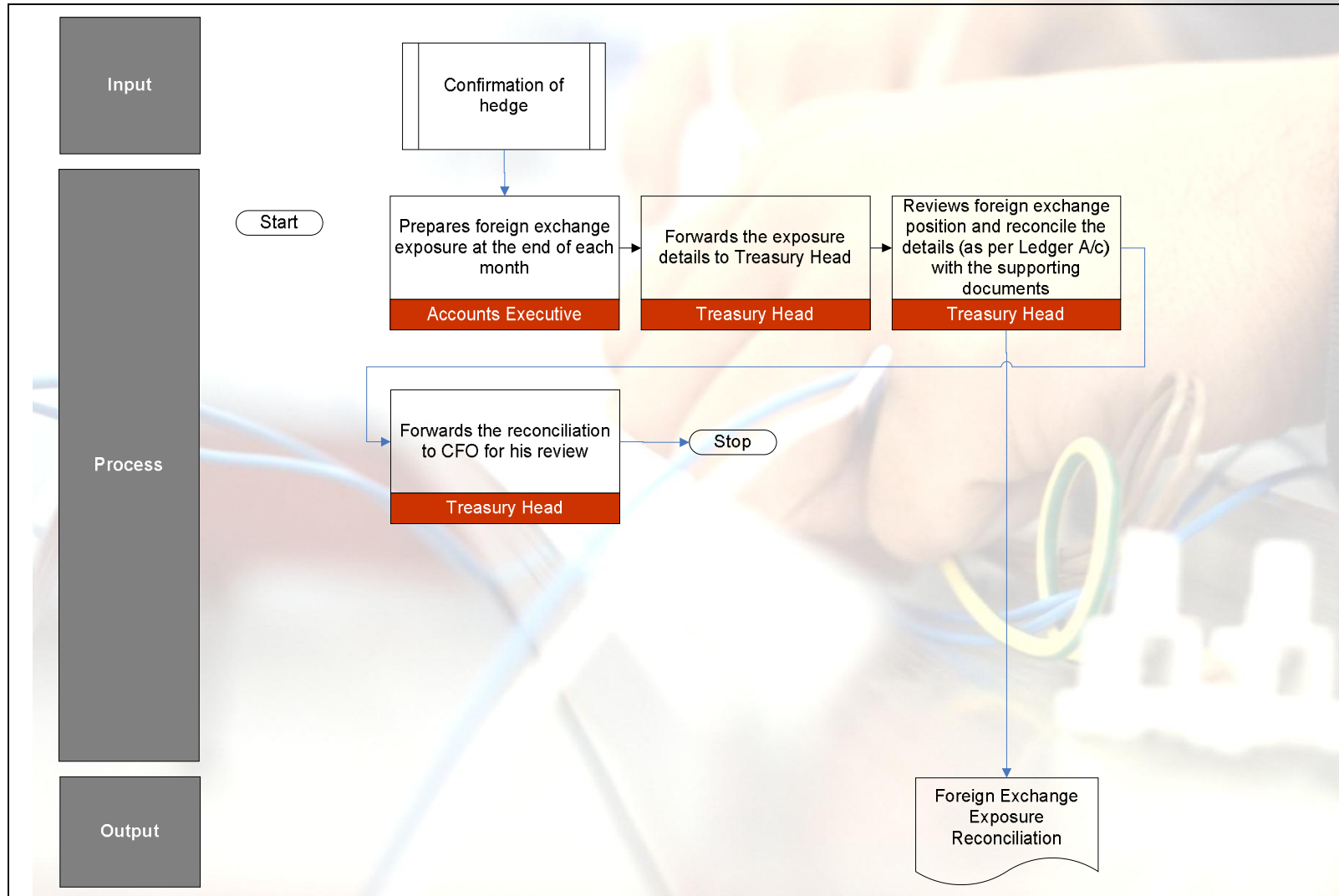
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## Sub process: Exposure recognition



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### B3. Key Process description – Exposure Recognition

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- ▶ Accounts Executive at the end of each month will take out the foreign exchange exposure details from SAP and forward it to Treasury Head for review
- ▶ Treasury Head will review the foreign exchange position and monthly foreign exchange exposure and reconcile details with supporting documents and deal register.
- ▶ The Treasury Head will then forward the reconciliation to CFO for his review.



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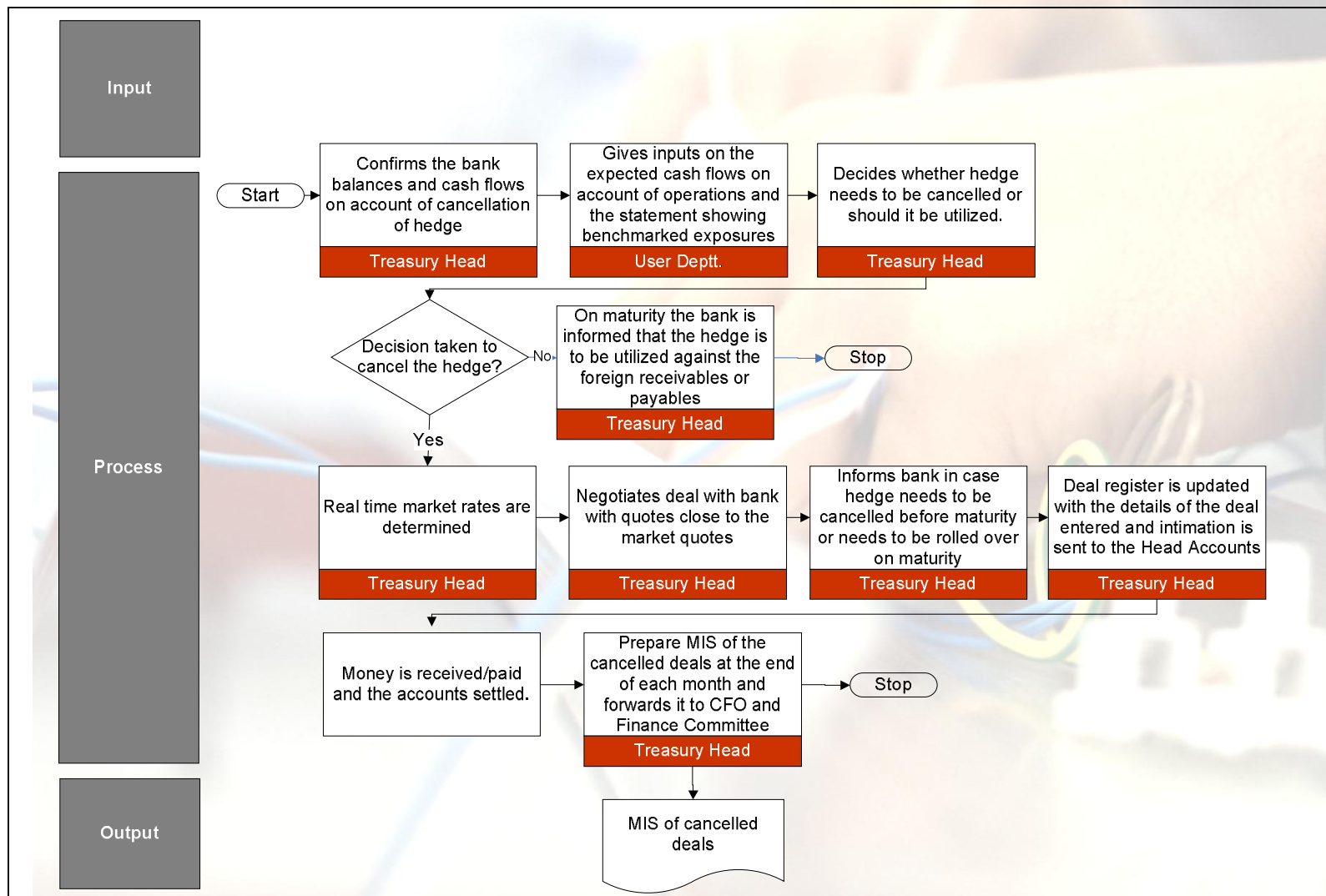
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## Sub process: Cancellation of hedge



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#### B4. Key Process description – Cancellation of hedge

- ▶ In case a hedge has to be cancelled, the Treasury Head will confirm the bank balances and cash flows on account of cancellation of hedge. ( Cancellation of Hedge will be as per RBI Guidelines)
- ▶ The User departments will give inputs on the expected cash flows on account of operations and the statement showing benchmarked exposures.
- ▶ The Treasury Head will decide whether hedge needs to be cancelled or should it be utilized.
- ▶ In case the decision is taken to utilize the hedge, the Treasury Head will inform the bank that the hedge is to be utilized against the foreign receivables or payables on maturity.
- ▶ In case a hedge is to be cancelled, the Treasury Head will negotiate the rate to close the deal with the bank with rates close to the going market rates.
- ▶ The deal register will be updated by the Treasury Head with the details of the deal entered and intimation will be sent to the GM, Finance
- ▶ Money will be received/paid and the accounts will be settled.
- ▶ Treasury Head at the end of each month prepares a MIS and forward it to CFO and Finance Committee for review

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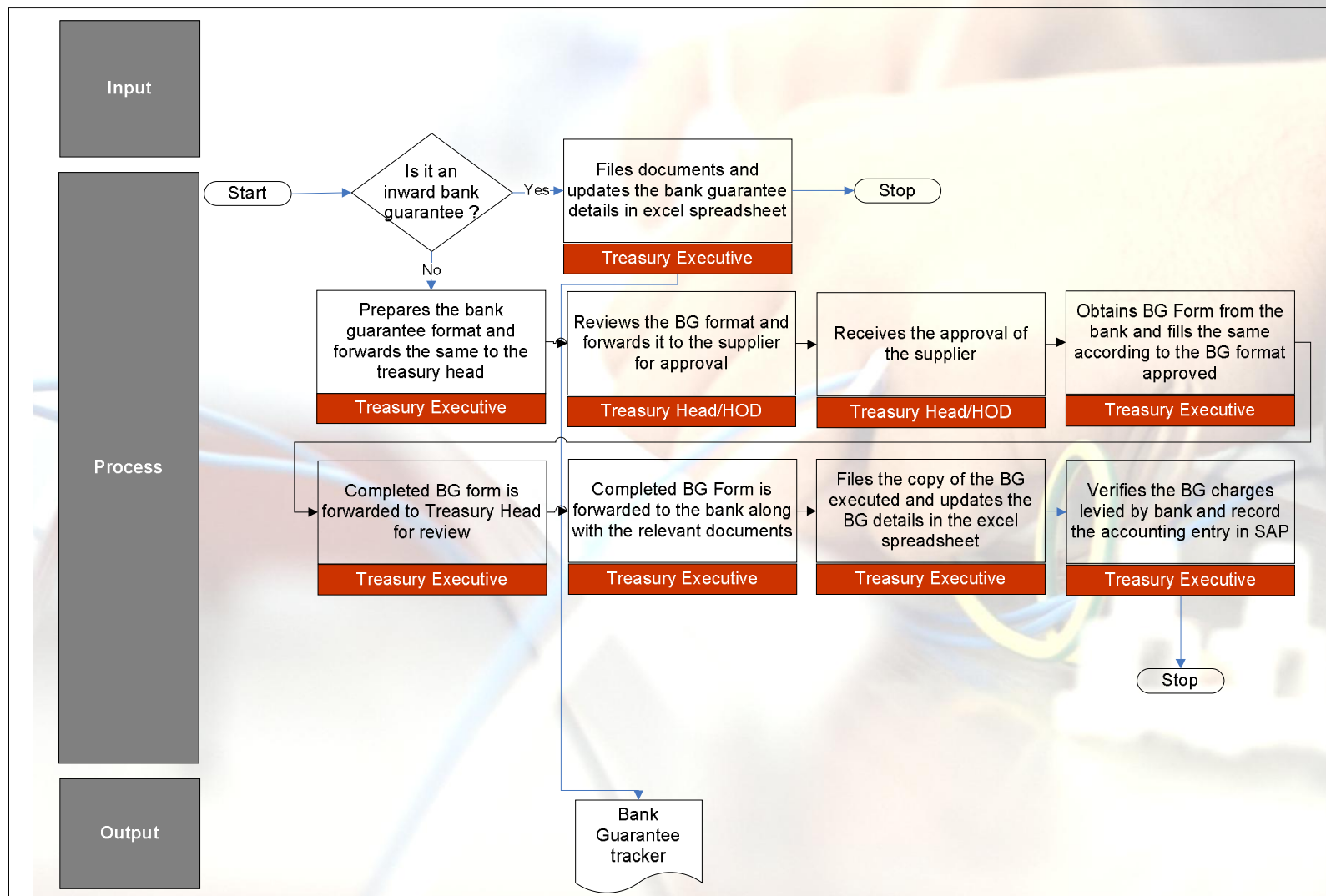
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## Sub process: Bank Guarantee



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## C1. Key Process description – Bank Guarantee

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- ▶ The Treasury Executive will prepare the Bank Guarantee format and forward the same to the Treasury Head.
- ▶ The Treasury Head will review the approved Bank Guarantee format and forwards the same to the concerned HOD.
- ▶ The Treasury Head/HOD will forward the approved Bank Guarantee format to the supplier for approval.
- ▶ The Treasury Head/HOD will receive the approval of the supplier.
- ▶ The Treasury Executive will then obtain the Bank Guarantee Form from the bank and will fill the same according to the approved Bank Guarantee format.
- ▶ The completed Bank Guarantee Form will be forwarded to the Treasury Head by the Treasury Executive for review.
- ▶ The completed Bank Guarantee Form will be forwarded to the bank along with the relevant documents by the Treasury Executive .
- ▶ The Treasury Executive will keep a copy of the Bank Guarantee and will forward the original copy to the Treasury Head.
- ▶ Respective Functional Head will ensure the discharge of Bank Guarantee from Bank on as and when the claim date of the same has been expired.
- ▶ MIS of pending BG's is forwarded to accounts head on a monthly basis.

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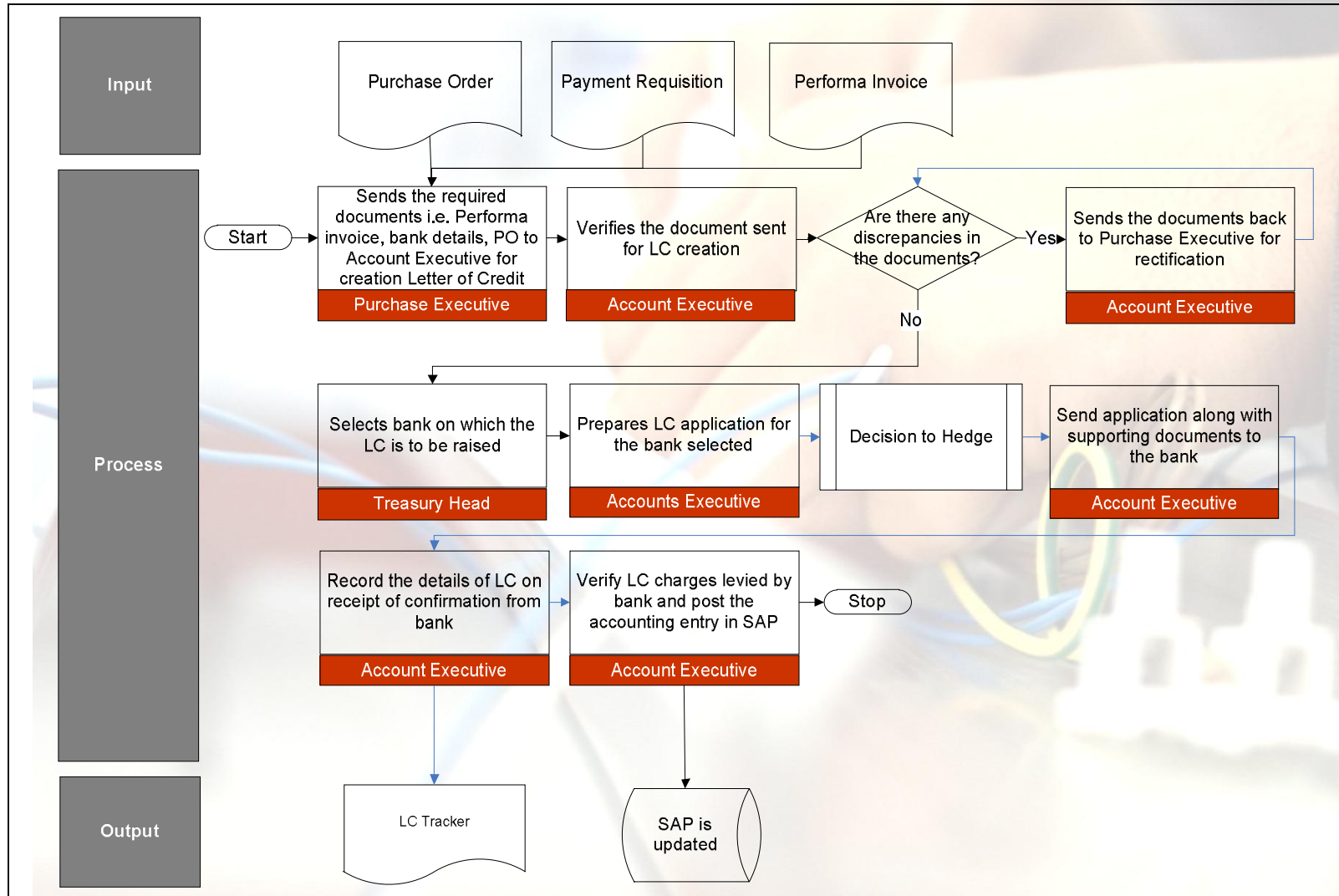
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## Sub process: Opening letter of credit





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## D1. Key Process description – Opening letter of credit

- ▶ The Purchase Executive will send documents like Performa Invoice, bank details, payment requisition and Purchase Order (PO) of the vendor to Account Executive for creation of Letter of Credit (LC).
- ▶ Account Executive will verify the documents.
- ▶ If there are discrepancies in the LC documents, then the same will be sent back Purchase Executive for rectification
- ▶ If there are no discrepancies, the Treasury Head will select the bank on which the LC will be raised and prepare the LC application for the selected bank.
- ▶ An application for the letter of credit along with the supporting documents will be sent to bank.
- ▶ On receipt of confirmation from bank, Account Executive will record the details of LC in the excel spreadsheet.
- ▶ Account Executive will verify the LC Charges levied by bank and post the accounting entry in SAP

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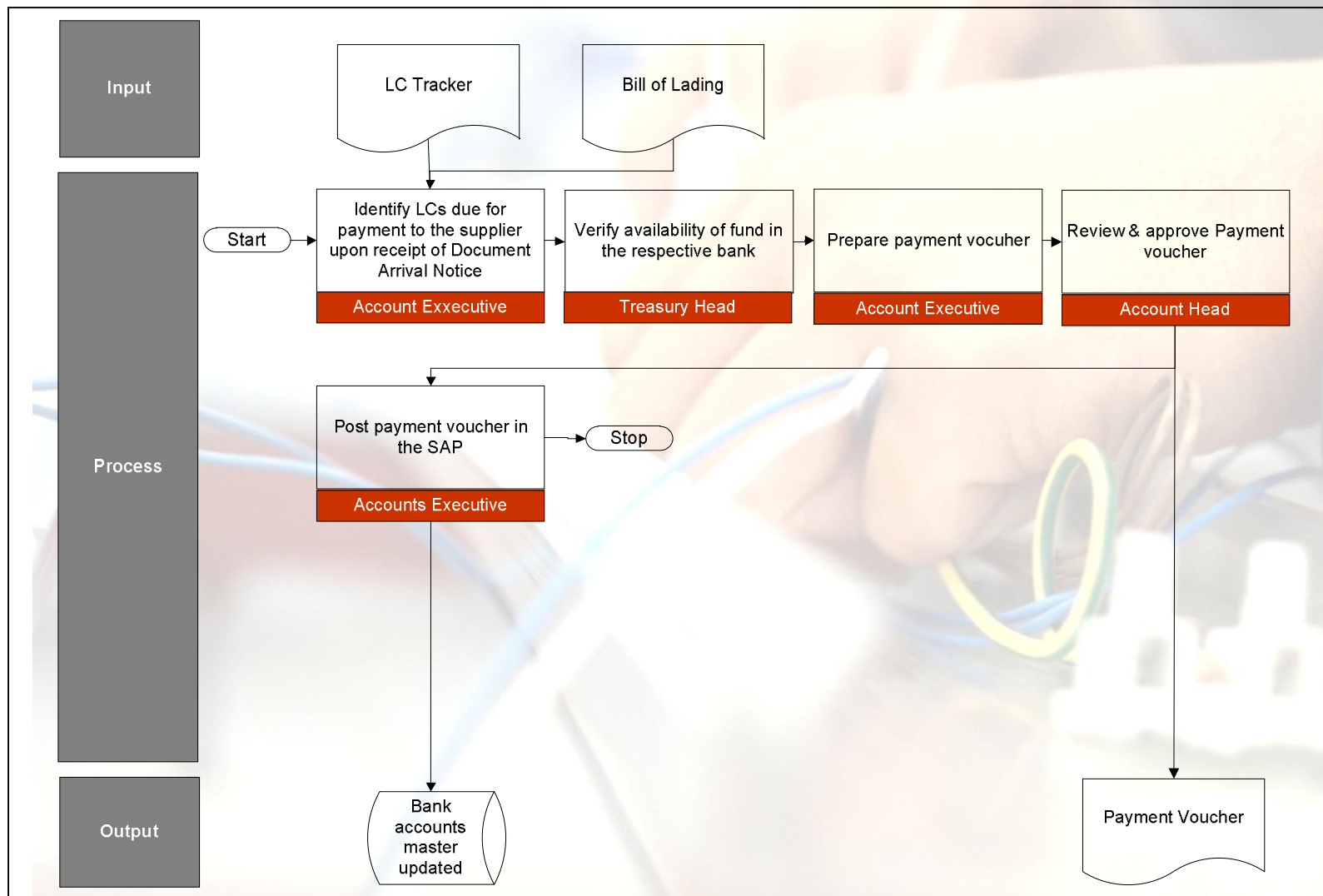
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## Sub process: Closing letter of credit



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## D2. Key Process description – Closing letter of credit

- ▶ The Account Executive will prepare a list of LC's due for payment to the supplier upon receipt of the Document Arrival Notice (DAN).
- ▶ The Treasury Head will then verify the availability of funds in the respective bank.
- ▶ A payment voucher will be prepared by the Account Executive.
- ▶ Account Head will review and approve the payment voucher.
- ▶ The Accounts Executive will post the payment voucher in SAP and the Bank Accounts Master will be updated.

Fund Management

Forex Transactions

Bank Guarantee

Letter Of Credit

Bank Operations

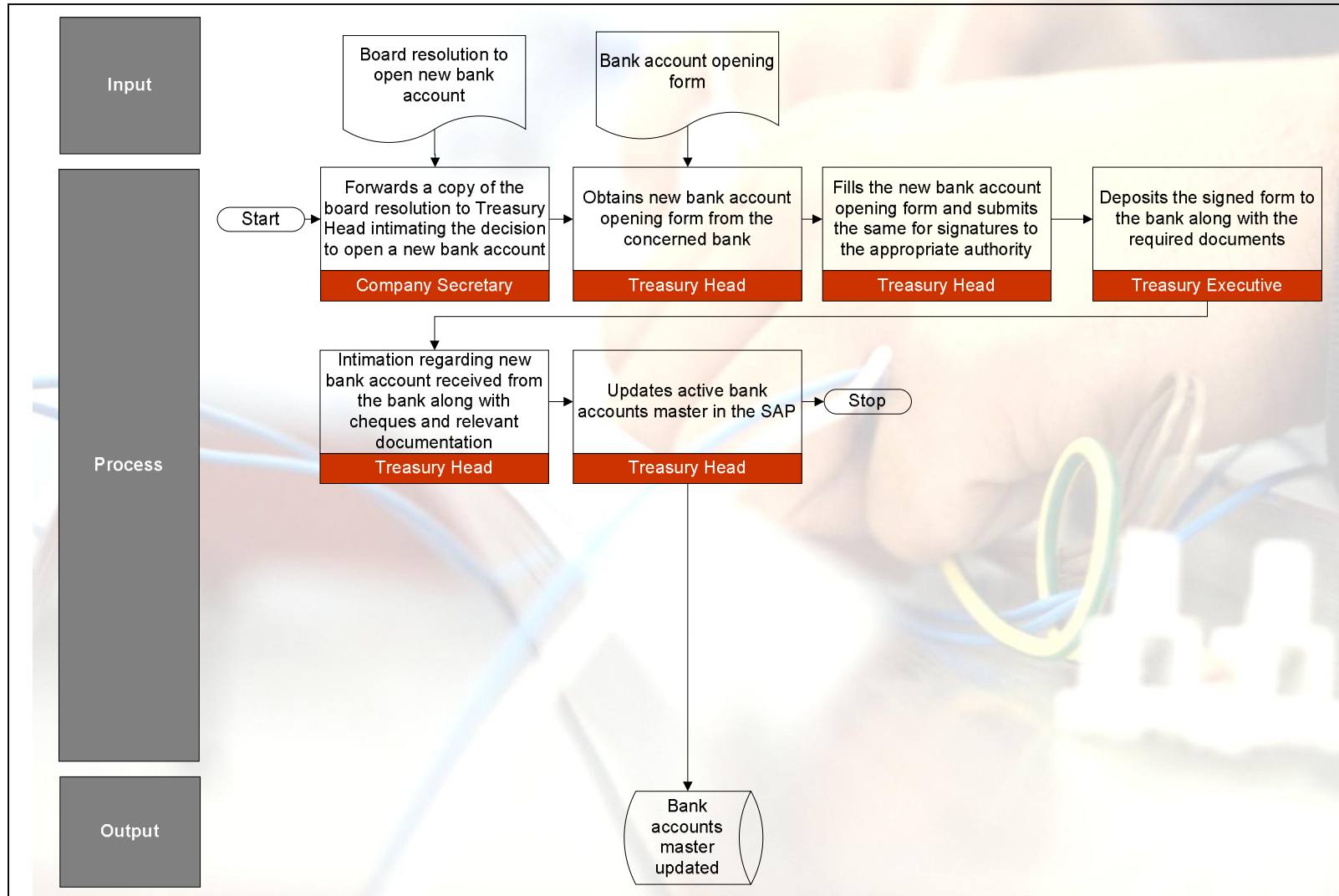
Overview

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Key MIS &amp; Formats

## Sub process: Opening of bank account



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## E1. Key Process description – Opening of bank account

- ▶ The Company Secretary will forward a copy of the board resolution to the Treasury Head intimating the decision to open a new bank account.
- ▶ The Treasury Head will obtain a new bank account opening form from the concerned bank.
- ▶ The Treasury Head will fill the new bank account opening form and submit the same for the signature of the appropriate authority.
- ▶ The Treasury Executive will deposit the signed form to the bank along the required documents.
- ▶ The Treasury Head will provide intimation regarding the new bank account received from the bank along with the cheques and other relevant information.
- ▶ The Treasury Head will update the active bank accounts master in SAP.



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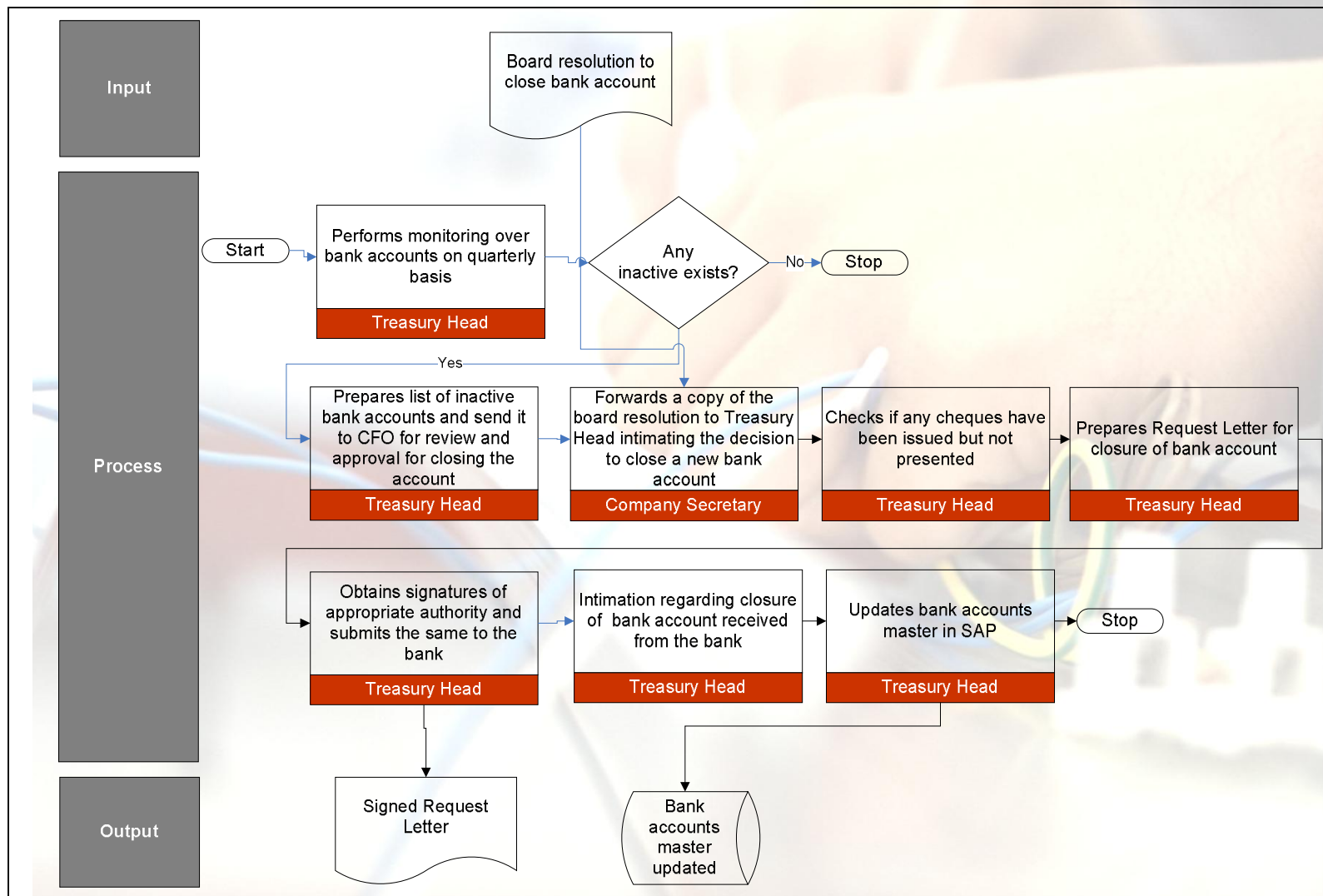
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## Sub process: Closing of bank account



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## E2. Key Process description – Closing of bank account

- ▶ Treasury Head performs the monitoring over bank accounts on quarterly basis to identify the inactive accounts and initiate the closure process
- ▶ In case of identification of inactive account, Treasury Head will prepare the list of such bank account and forward it to CFO for review and approval for closure of such accounts
- ▶ The Company Secretary will forward a copy of the board resolution to the Treasury Head intimating the decision to close a bank account.
- ▶ The Treasury Head will check if any cheques have been issued but not presented and prepare a Request Letter for closure of a bank account.
- ▶ He will obtain the signatures of the appropriate authority and submit the same to the bank.
- ▶ Upon receipt of confirmation regarding closure of the bank account from the bank, Treasury Head will update the active bank accounts master in SAP.



**HAVELLS**

Thank You